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Foreign Economic Trends and Their Implications for the United States

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NAMIBIA

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KEY ECONOMIC INDICATORS
(millions of U.S. dollars unless noted)

	1987	1988	Estimated 1989
Domestic Economy			
GDP (current)	1,516	1,655	1,765
GDP (real, 1980 Prices)	614	975	1,004
Growth Rate, real (%)	2.8	2.3	3.0
GDP, Per Capita	976	1,035	1,071
Population (millions)	1.2	1.4	1.6
Population Growth Rate (%)	2.4	3.0	3.0
Inflation	12.6	12.9	14.0
Production and Employment			
Labor Force (persons)	500,000	500,000	500,000
Unemployment (%), est.	30	30	30
Real Growth by Sector (%)			
Agriculture	27	2	NA
Mining	-2	1	NA
Manufacturing	2	-2	NA
Government Deficit as percent of GDP	10	6.1	10.1
Balance of Payments and Foreign Investment			
Exports (fob)	890	940	1,006
Imports (fob)	888	861	918
Trade Balance	2	79	89
Current Account Balance	26	-37	-50
Foreign Exchange Reserves	148	143	76
External Debt	341	341	349
Debt-Service Ratio (%)	NA	8.0	9.0
Average Exchange Rate (US$/Rand)	.49	.44	.38
U.S. Exports to Namibia (fas)	1.4	2.1	12.7
U.S. Imports from Namibia (cif)	8.3	5.1	14.7

Sources: U.S. Department of Commerce, United Nations, South Africa

Summary

Namibia, the world community's newest independent member, covers an area of 320,000 square miles, about twice the size of California, along the southwest coast of Africa, north of the Orange River. Its terrain consists mostly a high, semiarid plateau bounded in the west by a coastal desert, the Namib, and in the east by portions of the Kalahari desert.

Since 1986, Namibia's economy has grown an average of 2.7 percent annually. In 1988, the country's gross domestic product (GDP) amounted to $1.66 billion, giving the 1.3 million inhabitants a per capita income of $1,189: the third highest in Africa. However, this per capita figure obscures the problem of an unemployment rate that exceeds 30 percent and the fact that the white minority accounts for a disproportionate share.

Namibia's economy is heavily dependent on a few primary commodity exports: diamonds, uranium, copper, silver, tin, lead, livestock, and fish. Mining, agriculture, and fishing will therefore continue to be the stimulus of growth for independent Namibia. These three sectors generate an estimated 45 percent of GDP and account for 89 percent of total exports. However, their potential to generate greater employment is limited.

Namibia's economy remains highly integrated with its southern neighbor, the Republic of South Africa. Namibia's infrastructure of roads, railways, telecommunications, and electrical power were originally designed for linkage with South Africa. An estimated 75 percent of its imports come from South Africa and an additional 19 percent pass through South Africa on its way to Namibia. Walvis Bay, the only deepwater port serving Namibia, remains under the administration of South Africa. The new independent government will maintain the South African Rand (R) as the country's official currency and will remain in the Southern African Customs Union for the next two or three years.

The new govermment in Windhoek, the country's capital and largest city, is preparing an ambitious development program to reorient an economy distorted by a history of South African domination. Development priorities are in agriculture, fisheries, job creation, vocational training, infrastructure, industrial development, and public services such as health, education and housing. The government expects to execute these programs through aid from bilateral and multilateral donors. The government eagerly seeks the participation of foreign investors and is in the process of reviewing existing regulations governing private investment. It is expected that a new investment code and regulations will be enacted later in 1990.

Recent Economic Trends

Namibia's economy has experienced steady growth since 1986, although real GDP increased by only 2 percent in 1988 following a rise of 2.9 percent in 1987. This slight reduction in growth results from a slowdown in the expansion of the primary sector, which accounts for 41 percent of total GDP. Despite continued economic growth, real per capita income levels have declined as the Namibian population growth rate of 3 percent exceeds GDP growth. Gross domestic expenditure increased by 7.6 percent in 1978 with a notable increase in private consumption. In 1988, this growth continued at 9 percent, attributed to an increase in real inventory and investment levels. Financial policy will focus on reversing the country's traditional capital outflows and encouraging financial inflows.

The new government faces a revenue shortfall resulting from reductions in subsidies from South Africa. The budget of the Windhoek central administration for 1990 projects a deficit of $185 million. A large portion of the budget will go to public expenditure in the areas of health, housing, education, and infrastructure. Debt repayments account for the biggest expenditure. A budget surplus in 1989, short-term borrowing, increased tax receipts, and higher profitability of the mining industry will help enable Namibia to make up for its revenue shortfall.

Inflation averaged 14 percent during 1989. The South African economy greatly influences Namibia's inflation rate as Namibia continues to be a part of the Rand Monetary Area (South Africa, Lesotho, and Swaziland) using the South African Rand as currency. Monetary policy is therefore determined by Pretoria, and inflation and interest rates reflect the prevailing trends in South Africa. In addition, foreign exchange transactions are subject to the controls of the South African Reserve Bank, which acts as the central bank of Namibia. The Namibian government is setting up a central bank and expects to leave the Rand Monetary Area in about two years.

The current account showed a deficit of $37 million in 1988; this was the first such deficit in seven years. However, Namibia's merchandise trade balance fluctuated widely throughout the 1980s reflecting changes in world mineral prices and the value of the Rand against the U.S. dollar. By 1988, Namibia's external trade position had substantially improved. Exports increased 17 percent to $935 million due to a sharp rise in commodity prices, although actual volumes dropped slightly. The value of 1988 imports rose 8 percent to $856 million.

Namibia's traditional merchandise trade surplus, which results from its valuable mineral exports, obscures the country's need to import 95 percent of its total consumption and investment goods. Roughly three-quarters of all imports come from South Africa, including most foodstuffs and refined petroleum products. Namibia's other major trading partners are Switzerland, West Germany, the United States, and Japan.

Sectoral Developments

Mining -- Mining plays a dominant role in Namibia's economy. It generates 25 percent of GDP, 85 percent of export earnings, and about 25 percent of government revenue. The sector employs over 18,000 workers in 46 mining operations. About 34 different minerals are currently produced in Namibia. Almost all are exported in unprocessed form. The industry's major contributors are diamonds, uranium, and copper.

The sole diamond producer is Consolidated Diamond Mines (CDM), a wholly owned De Beers(South Africa) subsidiary. Although output fluctuated in the late 1980s around 1 million carats annually (of which 95-97 percent are gem quality), CDM's after-tax profits continue to increase. The company expects to spend $80 million to develop two more diamond deposits at Auchus and Elizabeth Bay, which together should generate 300,000 carats of additional output by 1991.

Rossing Uranium Limited, 46 percent owned by United Kingdom-based RTZ, is the country's sole producer of uranium ore. The Rossing mine, the largest open-pit uranium mine in the world, contributes 17 percent to Namibia's GDP and produces 35 percent of Namibia's total export earnings. Weak world uranium prices have kept the mine's output 1,500 tons below its rated capacity of 5,000 tons per year. Rossing's market is based on long-term sales contracts to countries such as France, Japan, West Germany, Spain, and Taiwan.

The South African controlled Tsumeb Corporation operates the only copper smelter and lead refinery in Namibia. Tsumeb also produces zinc, gold, silver, cadmium, pyrite, and arsenic trioxide. The South African Iron and Steel Corporation (ISCOR), a parastatal, produces lead, zinc, and tin at two mines in Namibia.

Overmining is a current concern for the Windhoek administration. The Thirion Commission, headed by the Natal supreme court judge P.W. Thirion, published a report in 1986 calling for stricter regulatory power, including a more efficacious Department of Mines and the enforcement of minimum exploration performance criteria.

Adequate diamond and uranium reserves exist to maintain present production levels through the next decade. However, low grades and dwindling copper resources are hampering copper production, and low prices threaten the viability of tin output. Thus, the the potential for expansion of existing mining operations is limited. Diamonds, uranium, and base metals will continue to be the backbone of Namibia's economy for the foreseeable future, and the potential exists for additional discoveries. The government is expected to promote more value-added projects such as refining base metals and manufacturing alloys. The government also encourages prospecting investment with the aim of uncovering new deposits of minerals, oil, and gas.

Agriculture -- Agriculture employs half of Namibia's labor force and generates about 15 percent of export earnings and GDP. Livestock farming of cattle and karakul sheep for meat, dairy products, and pelts dominates the agricultural sector. Millet and sorghum are extensively grown by subsistence farmers. The commercial agricultural sector is dominated by 4,000, almost exclusively white farmers (mostly cattlemen) on almost one-half the country's agricultural land. On the "other side of the fence" are more than 800,000 black Namibian farmers, mostly subsistence, on communal lands. Inadequate rainfall in many areas limits crop production. Favorable results from irrigation projects in the north that have relied upon water from the Okavango, Kunene, and Zambezi rivers indicate good potential for future endeavors. The new government will encourage greater small-scale food production and hopes that new food crops such as vegetables, cereals, oil seeds, fruit, cotton, sisal, and cash crops such as sugar cane and tobacco can be developed.

In recent years, commercial fishing has accounted for as much as 5 percent of GDP and 20 percent of export earnings. The sea off the Namibian coast is one of the world's most fertile fishing grounds with a plentiful supply of sardines, anchovies, mackerel, hake, and others. Walvis Bay serves as Namibia's primary fishing port and location for the fish processing industry. Unfortunately, overfishing has negatively affected traditional stocks. Namibian officials report that foreign fleets are taking about 2 million tons of fish each year from Namibian territorial waters, while only paying fees on quotas totaling 800,000 tons. At R1,000 per ton, this represents a loss in revenue of over R1 billion annually ($350 million). The government is expected to tighten fishing regulations by negotiating bilateral fleet agreements, setting catch quotas, and proclaiming a 200-mile Exclusive Economic Zone for Namibia, under the Law of the Sea Convention.

Manufacturing -- Manufacturing employs 5.1 percent of the formal sector work force and contributes 7 percent of Namibia's GDP. About 400 industrial enterprises operate in Namibia, more than half of which are located in Windhoek. Food processing businesses (primarily fish and meat) constitute the largest share of the sector. Other significant industries include textiles, wood working, furniture manufacturing, transportation equipment, metal products, chemical products, printing, and publishing.

While the sector enjoys a well-developed infrastructure and financial institutions, the domestic market for manufactured goods is small, and the labor is largely unskilled. The new government of Namibia is expected to encourage increased local value added to manufactures through greater processing of Namibian raw materials. Potential for development exists in industries linked to Namibia's primary sector activities (mining, agriculture, and fishing). These may include processing of minerals, transportation of minerals, manufacture of mining and agricultural equipment, and processing of beef for export. The First National Development Corporation, run by the Namibian Government, will aid private investment in manufacturing activities.

Services -- South African companies dominate Namibia's banking and real estate industries. The two biggest commercial banks are First National Bank (formerly Barclays Bank) and Standard Bank. The SWA Building Society (SWABS), established by seven South African building societies, finances upper and middle income housing projects. The National Building and Investment Corporation (NBIC) finances low-income housing. Both SWABS and NBIC operate predominantly in the main urban centers.

Namibia is home to some of Africa's most spectacular landscapes, yet its tourist sector is relatively underdeveloped. Conservation areas and recreation resorts cover 12 percent of the country's total surface area. The government is eager to develop the sector with private sector cooperation and investment. Preserving the fragile ecology will be an important component of tourism policy. Development of the sector will require creation of hotels and small safari camps, and investment in local air transport. High-cost, low-volume tours, with minimum disturbance, are likely to be favored.

Infrastructure -- Namibia's transport and communications infrastructure were developed to meet the strategic and economic needs of South Africa. Transport linkages with neighboring Angola, Zambia, and Botswana remain limited. The country's roads, railways, power, and communications are connected to corresponding systems in South Africa. Future expansion of these systems to

link up with other neighboring countries will be a priority for the new independent government.

The railway network comprises 2,349 km of track and can carry 2 million tons of freight annually. The South African-administered Walvis Bay handles 900 vessels per year and Luderitz can serve 70 annually. International air service is provided by Namib Air and South African Airways between Windhoek, Johannesburg, and Cape Town. Other international air carriers are in the process of negotiating arrangements for flights from Windhoek to destinations in Africa and Europe. The Department of Posts and Telecommunications operates an international exchange in Windhoek and also an automatic telex exchange. Communication to rural areas is provided by 65 fixed radio stations and 500 mobile stations. A highway connects South Africa's Cape Province to the Namibian city of Oshakati in Ovamboland and Rundu in Kavangoland. Transport linkage with Angola, Zambia, and Botswana remains limited but should improve with the entry of Namibia as a full member of the Southern African Development Coordination Conference (SADCC).

In July 1988, a Namibian parastatal, the National Transport Corporation, now called TransNamib, took over the operation of the road haulage, railway services, and the port of Luderitz. TransNamib also controls Namib Air, the national airline which currently offers international service to Frankfurt, Johannesburg, and Cape town.

Trade and Investment Climate

Namibia is expected to maintain an economic growth rate of 2-2.5 percent for 1990. Since the economy virtually exports 90 percent of total production, Namibia's economic growth is heavily dependent upon world market prices for Namibia's products. The government's international trade policy will focus on diversifying trading partners and finding new markets for nonmining and processed goods.

Namibia will become a member of the Lome Convention -- an agreement that gives Africa, Caribbean, and Pacific countries preferential access to European Community markets. Namibia's membership in SADCC may help build intraregional trading relationships with neighboring states.

The government's development priorities are: expand smallholder farming with a view towards national self-sufficiency in food production; develop infrastructure and related services (electricity, water, and communications) throughout the country;

and improve public services in health and education. The government expects to execute these programs through grant aid from bilateral and multilateral donors. The United Nations Development Program is coordinating most aid flows to Namibia.

President Sam Nujoma views private business as the government's partner in economic reconstruction and nation-building. Foreign investor participation in Namibia's economic recovery is most welcome. The new independent government is reviewing its regulations towards private and foreign investment and is expected to release a new investment code by the fall of 1990. Presently, the legal instrument of corporate regulations in Namibia is the South Africa's Companies Act of 1973. The new government has announced that it will publish a separate regulatory and investment code for the mining sector, and possibly for the energy sector as well.

Investment possibilities are in agriculture, mining, and processing industries. The First National Development Corporation (FNDC) assists in the identification of investor projects and in the coordination of local and foreign investors, development agencies, and financing. The FNDC has compiled a significant list of projects seeking investor participation, most of which are in the area of processing industries for primary commodities.

Implications for the United States

Upon Namibia's independence on March 21, 1990, the United States granted Namibia most favored nation (MFN) trade status and removed Namibia from the sanctions that had been imposed on it under the Comprehensive Anti-Apartheid Act (CAAA) of 1986.

In 1989, U.S. exports to Namibia totaled $12.7 million, and U.S. imports from Namibia totaled $14.7 million. Principal U.S. exports to Namibia are aircraft and associated equipment and parts, mining equipment, chemicals, vehicle parts, and radio equipment. Principal U.S. imports from Namibia are minerals, oil, and fish. The profile of the trade between the two countries will change significantly with the lifting of CAAA sanctions on U.S. trade with and investment in Namibia.

The best prospects for U.S. exports are in goods that are not obtainable within the Southern African Customs Union or in product areas where the United States has technological superiority such as mining, agriculture, communications, and construction.

U.S. exporters will find stiff competition in Namibia from European and South African suppliers. Approximately 70 percent of Namibia's total imports come from South Africa, and about 90 percent of Namibia's food and consumer products from South Africa. The members of the European Community will also be actively establishing their presence in Namibia, with the assistance of significant aid packages.

Firms seeking to learn more about the prospects for trading with and investing in Namibia should contact the American Embassy in Windhoek, Ausplan Building, 14 Lossen Street, Telephone 264-61-229-791, Fax 264-61-229-792; or the Namibian Desk Officer at the U.S. Department of Commerce, Telephone 202-377-5148, Fax 202-377-5330

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